

MIDWAY SANITATION DISTRICT

**FINANCIAL STATEMENTS AND REPORT OF
INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS**

DECEMBER 31, 2005

MIDWAY SANITATION DISTRICT
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GILBERT & STEWART

CERTIFIED PUBLIC ACCOUNTANTS
A PROFESSIONAL CORPORATION

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Midway Sanitation District

May 26, 2006

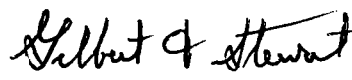
We have audited the accompanying financial statements of the business-type activities of Midway Sanitation District as of and for the year ended December 31, 2005, which comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Midway Sanitation District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of Midway Sanitation District as of December 31, 2005, and the respective changes in financial position and cash flows, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated May 26, 2006 on our consideration of Midway Sanitation District's internal control over financial reporting and on our test of compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

The management's discussion and analysis on pages 2 through 5 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.


GILBERT & STEWART
Certified Public Accountants

Management's Discussion and Analysis

Our Discussion and Analysis of Midway Sanitation District's financial performance provides an overview of the District's financial activities for the fiscal year ended December 31, 2005.

Financial Highlights

- The District's net assets increased \$1,454,476 over the prior year as a result of this year's operations.
- The District's business-type activity, operating revenues and expenses were \$474,759 and \$418,310 respectively.
- The District's business-type activity total revenues and expenses were \$1,873,326 and \$418,850 respectively.

Using this Annual Report

This annual report consists of a series of financial statements. The Statement of Net Assets, Statement of Revenues, Expenses and Changes in Net Assets and Statement of Cash Flows provide information about the activity of the District and present a longer-term view of the District's finances. Since the District is operated as an enterprise fund, there are no fund statements presented because all operations are reported using the accrual method of accounting.

Reporting the District as a Whole

The Statement of Net Assets and Statement of Revenues, Expenses and Changes in Net Assets report information about the District as a whole and about its activities in a way that helps determine if the District is better or worse off as a result of the year's activities. These statements include all assets and liabilities using the accrual basis of accounting which is similar to the accounting method used by most private-sector companies. All of the current year's revenues and expenses are accounted for regardless of when cash is received or paid.

These two statements report the District's net assets and the changes in them. Net assets equal the difference between assets and liabilities. This is one way to measure the District's financial position. Increases or decreases in the District's net assets are one indicator of whether the financial position of the District is improving or deteriorating. You will need to consider other non-financial factors, such as the condition of the District's Sewer facilities and sewer collection system to assess the overall health of the District.

In the Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets, the District shows all of its activities in one fund.

- Business-type activities – The District charges fees to customers for sewer service. These fees cover all or most of the cost of providing the related services to the District.

Reporting the District's Significant Fund

The District has only one fund, which accounts for the activity of the District. The entity-wide financial statements provide detailed information about the operations of the District as a whole. The District's only fund is operated as an enterprise fund. Enterprise funds are reported using the accrual accounting method, which records revenues when they are earned and expenses when they are incurred. There are no governmental type funds operated by the District.

The District as a Trustee

The District does not hold any funds or property in a trustee capacity.

The District as a Whole

The net assets of the District changed by \$1,454,476 from a year ago, increasing from \$5,378,196 to \$6,832,672. The following analysis focuses on the net assets and changes in net assets of the District's business activity.

Net Assets

	December 31 2005	December 31 2004
Current Assets	\$ 2,561,963	\$ 1,651,820
Non Current Assets		
Capital Assets	4,292,567	3,771,679
Total Assets	6,854,530	5,423,499
Current Liabilities	21,858	45,303
Noncurrent Liabilities	-	-
Total Noncurrent Liabilities	21,858	45,303
Net Assets		
Invested in Capital Assets, Net of Related Debt	4,292,567	3,753,679
Restricted:		
Bond Retirement	-	40,341
Impact Fees	1,086,369	378,248
Unrestricted	1,453,736	1,205,928
Total Net Assets	\$ 6,832,672	\$ 5,378,196

Net Assets of the District are \$6,832,672. *Unrestricted* net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements – are \$1,453,736. These net assets are used to finance the continuing operations of providing our services to citizens within the District's boundaries.

Revenues, Expenses, and Changes in Net Assets

	December 31, 2005	December 31, 2004
Revenues		
Charges for Services	\$ 419,825	\$ 419,254
Other Revenues	836,159	361,104
Total Revenues	<u>1,255,984</u>	<u>780,358</u>
Expenses		
Operating Expenses	418,310	460,413
Other Expenses	540	1,050
Total Expenses	<u>418,850</u>	<u>461,463</u>
Income Before Contributions	837,134	318,895
Contributions	<u>617,342</u>	<u>360,161</u>
Change in Net Assets	1,454,476	679,056
Net Assets – Beginning	<u>5,378,196</u>	<u>4,699,140</u>
Total Net Assets – Ending	<u>\$ 6,832,672</u>	<u>\$ 5,378,196</u>

Budgetary Highlights

The District adopted a budget for the 2005 calendar year with budgeted revenues of \$511,150, and budgeted expenditures of \$726,890.

Since the District operates as an enterprise fund, it is only required to comply with the budget on an entity wide basis. Without any budget adjustments, the actual revenues exceeded budgeted amount by \$744,834. Actual charges to expenses were \$308,040 below the budgeted amount.

Capital Asset and Debt Administration

At the end of 2005, the District had net capital assets of \$4,292,567 in a broad range of capital assets land easements, collection systems, and office equipment.

Capital Assets

	<u>2005</u>	<u>2004</u>
Land Easements	\$ 16,000	\$ 16,000
Collection System	5,480,555	4,863,213
Office Equipment	12,766	10,766
Total Capital Assets	<u>5,509,321</u>	<u>4,889,979</u>
Accumulated Depreciation	<u>(1,216,754)</u>	<u>(1,118,300)</u>
Net Capital Assets	<u>\$4,292,567</u>	<u>\$ 3,771,679</u>

Debt

At year-end, the District had no outstanding debt.

There was no new debt issued during 2005.

Contacting the District's Financial Management

This financial report is designed to provide our citizens, customers, and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions or need additional financial information, contact the District Office at PO Box 277, Midway, Utah 84049-0277.

BASIC FINANCIAL STATEMENTS

MIDWAY SANITATION DISTRICT

STATEMENT OF NET ASSETS

DECEMBER 31, 2005

	2005	2004 (Memo only)
ASSETS		
Current Assets		
Cash and Cash Equivalents	\$ 2,481,039	\$ 1,577,060
Restricted Cash and Cash Equivalents	27,945	40,341
Accounts Receivable - Customers	30,765	24,453
Accounts Receivable - Taxes	22,214	9,966
Total Current Assets	<u>2,561,963</u>	<u>1,651,820</u>
Non Current Assets		
Capital Assets:		
Land Easement	16,000	16,000
Collection System	5,480,555	4,863,213
Office Equipment	12,766	10,766
Less Accumulated Depreciation	<u>(1,216,754)</u>	<u>(1,118,300)</u>
Net Capital Assets	<u>4,292,567</u>	<u>3,771,679</u>
Total Assets	<u>\$ 6,854,530</u>	<u>\$ 5,423,499</u>
LIABILITIES & NET ASSETS		
Current Liabilities:		
Accounts Payable	\$ 21,858	\$ 27,303
Current Portion Long Term Debt	-	18,000
Total Current Liabilities	<u>21,858</u>	<u>45,303</u>
Noncurrent Liabilities:	-	-
Total Liabilities	<u>21,858</u>	<u>45,303</u>
Net Assets:		
Invested in Capital Assets (net of related debt)	4,292,567	3,753,679
Restricted:		
Bond Retirement	-	40,341
Impact Fees	1,086,369	378,248
Unrestricted	1,453,736	1,205,928
Total Net Assets	<u>\$ 6,832,672</u>	<u>\$ 5,378,196</u>

See accompanying notes to the financial statements.

MIDWAY SANITATION DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2005

	2005	2004 (Memo Only)
Operating Revenues		
Charge for Services	\$ 419,825	\$ 419,254
Development Fees	36,394	16,753
Inspection Fees	18,397	7,500
Miscellaneous Income	143	3,403
Total Operating Revenue	<u>474,759</u>	<u>446,910</u>
Operating Expenses		
Waste Collection and Disposal	174,489	238,888
Salary and Benefits	26,065	25,492
Depreciation	98,454	89,648
Insurance	6,605	5,808
Clerk Fees	6,600	6,000
Office Expense	8,137	7,434
Engineer Fees	44,555	28,525
Repairs and Maintenance	34,845	39,005
Professional Fees	12,722	14,132
Other	5,838	5,481
Total Operating Expenses	<u>418,310</u>	<u>460,413</u>
Operating Income	<u>56,449</u>	<u>(13,503)</u>
Non Operating Revenues (Expenses)		
Interest Revenue	67,502	24,806
Property Taxes	29,553	26,852
Impact Fees	684,170	250,090
Connection Fees	-	31,700
Interest Expense on Bonds	(540)	(1,050)
Total Non Operating Revenue (Expense)	<u>780,685</u>	<u>332,398</u>
Income before Contributions	837,134	318,895
Capital Contributions	<u>617,342</u>	<u>360,161</u>
Change In Net Assets	1,454,476	679,056
Total Net Assets - Beginning	<u>5,378,196</u>	<u>4,699,140</u>
Total Net Assets - Ending	<u>\$ 6,832,672</u>	<u>\$ 5,378,196</u>

See accompanying notes to the financial statements.

MIDWAY SANITATION DISTRICT

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED DECEMBER 31, 2005

	2005	2004 (Memo Only)
Cash Flows From Operating Activities		
Receipts From Customers	\$ 468,447	\$ 416,224
Payments to Employees	(26,065)	(25,492)
Payments to Suppliers	(299,236)	(315,961)
Net Cash Flow Provided By Operating Activities	<u>143,146</u>	<u>74,771</u>
Cash Flows From Non-Capital and Related Financing Activities		
Property Taxes Collected	<u>17,305</u>	<u>28,152</u>
Cash Flows From Capital and Related Financing Activities		
Impact Fees	684,170	250,090
Connection Fees	-	31,700
Acquisition of Property and Equipment	(2,000)	
Bond Payment	(18,000)	(17,000)
Interest Expense	(540)	(1,050)
Net Cash Flows From Capital and Related Financing Activities	<u>663,630</u>	<u>263,740</u>
Cash Flows From Investing Activities		
Interest Income	<u>67,502</u>	<u>24,806</u>
Net Increase in Cash and Cash Equivalents	891,583	391,469
Cash and Cash Equivalents - Beginning	1,617,401	1,225,932
Cash and Cash Equivalents - Ending	<u>\$ 2,508,984</u>	<u>\$ 1,617,401</u>
Reconciliation of Operating Income to Cash Flows from Operating Activities		
Cash Flows From Operating Activities		
Operating Income	\$ 56,449	\$ (13,503)
Adjustments to Reconcile Operating Income to Net Operating Income to Net Cash Provided (Used) From Operating Activities		
Depreciation	98,454	89,648
(Increase) Decrease in Accounts Receivable - Customers	(6,312)	1,014
(Increase) Decrease in Prepaid Expenses	-	5,000
Increase (Decrease) in Accounts Payable	(5,445)	24,312
Increase (Decrease) in Deferred Revenue	-	(31,700)
Total Adjustments	<u>86,697</u>	<u>88,274</u>
Net Cash Provided by Operating Activities	<u>\$ 143,146</u>	<u>\$ 74,771</u>
Reconciliation to the Balance Sheet		
Cash Presented on the Balance Sheet		
Unrestricted Cash and Cash Equivalents	\$ 2,481,039	\$ 1,577,060
Restricted Cash and Cash Equivalents	27,945	40,341
	<u>\$ 2,508,984</u>	<u>\$ 1,617,401</u>
Supplemental Disclosures		
Noncash Financing and Investing Transaction:		
Improvements Contributed by Developers	\$ 617,342	\$ 360,161

See accompanying notes to the financial statements.

MIDWAY SANITATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A summary of the significant accounting policies consistently applied in the preparation of the accompanying financial statements are as follows:

Reporting Entity

The Midway Sanitation District (District) is a special district organized in 1966 by Wasatch County for the purpose of providing sewage treatment services to Midway City. The District operates under a Board of Trustees form of government. In evaluating how to define the government for financial reporting purposes, management has considered all potential component units as described in GASB Statement 14.

Government-Wide Financial Statements

The government-wide financial statements consist of the statement of net assets, the statement of revenues, expenses and changes in net assets and the statement of cash flows. The District is considered a special-purpose government engaged only in business-type activities. It is classified as a proprietary fund type and operates as an enterprise fund. Enterprise Funds are used to account for operations that are financed and operated in a manner similar to private business enterprises -where the intent of the governing body is that costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges. The financial statements of the District consist of only an enterprise fund and neither fiduciary funds nor component units that are fiduciary in nature are included.

Basis of Accounting

Midway Sanitation District maintains its books and financial statements in conformity with generally accepted accounting principles as applicable to governmental units. The District's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements. Proprietary funds apply Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails. The District is a proprietary fund and uses the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized where earned and expenditures are recognized when incurred.

Cash and Cash Equivalents

Cash and cash equivalents consist of demand deposits, repurchase agreements and deposits with the State of Utah Public Treasurers' Investment Fund. Midway Sanitation District considers all cash and investments with a maturity of 90 days or less from the date of purchase to be cash equivalents.

MIDWAY SANITATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2005

NOTE 1 - (CONTINUED)

Property and Equipment

Property and equipment are recorded at cost, or if donated, at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an individual cost of more than \$1,000. Improvements are capitalized and depreciated over the remaining useful life of the related fixed assets as applicable.

Depreciation of property and equipment is calculated on the straight-line method over the assets' estimated useful lives as follows:

Equipment	3-20 years
Sewer Treatment Plant	25 years
Collection System	50 years

Compensated Absences

District policy does not provide for any vested or accumulated vacation leave or other compensated absences.

Comparative Data

Comparative total data for the prior year have been presented in the accompanying financial statements in order to provide an understanding of changes in the District's financial position and operation. The columns are captioned "memo only" to indicate that they are presented only to facilitate financial analysis.

Inventories

No significant inventories are maintained by the District; therefore, none are reflected in these statements.

Accounts Receivable

Taxes collected by the District after the year end (December 31) are accrued and considered Accounts Receivable.

MIDWAY SANITATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2005

NOTE 1 - (CONTINUED)

Revenues and Expenses

The District distinguishes operating revenues and expenses separately from non-operating. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the District's principal operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Property Taxes

Property taxes are assessed as of January 1st and become a lien upon the property as of that date. Real property taxes are due by November 30th and personal property taxes are due on a staggered basis throughout the year.

Use of Estimates

Presenting financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make certain estimates concerning assets, liabilities, revenues, and expenses. Actual results may vary from these estimates.

Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of assets, net of accumulated depreciation reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvements of those assets, and adding back unspent proceeds. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restriction imposed by creditors, grantors or laws or regulations of other governments. The District's policy is to apply restricted resources first then unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

NOTE 2 - CASH, CASH EQUIVALENTS AND INVESTMENTS

Deposits and Investments

Deposits and investments for Midway Sanitation District are governed by the Utah Money Management Act (Utah Code Annotated, Title 51, Chapter 7, "the Act") and by rules of the Utah Money Management Council ("the Council"). Following are discussions of the District's exposure to various risks related to its cash management activities.

MIDWAY SANITATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2005

NOTE 2 - (CONTINUED)

A. Custodial Credit Risk.

Deposits. Custodial credit risk for deposits is the risk that in the event of a bank failure, the District's deposits may not be recovered. The District's policy for managing custodial credit risk is to adhere to the Money Management Act. The Act requires all deposits of the District to be in a qualified depository, defined as any financial institution whose deposits are insured by any agency of the federal government and which has been certified by the commissioner of Financial Institutions as meeting the requirements of the Act and adhering to the rules of the Utah Money Management Council. As of December 31, 2005 none of the District's bank balances of \$33,795 were uninsured and uncollateralized.

B. Credit Risk.

Credit risk is the risk that the counterparty to an investment will not fulfill its obligations. The District's policy for limiting the credit risk of investments is to comply with the Money Management Act.

The District is authorized to invest in the Utah Public Treasurer's Investment Fund (PTIF), an external pooled investment fund managed by the Utah State Treasurer and subject to the Act and Council requirements. The PTIF is not registered with the SEC as an investment company, and deposits in the PTIF are not insured or otherwise guaranteed by the State of Utah. The PTIF operates and reports to participants on an amortized cost basis. The income, gains, and losses, net of administration fees, of the PTIF are allocated based upon the participants' average daily balances.

For the year ended December 31, 2005 the District had investments of \$2,476,271 with the PTIF. The entire balance had a maturity less than one year. The PTIF pool has not been rated.

C. Interest Rate Risk.

Interest rate risk is the risk that changes in the interest rates of debt investments will adversely affect the fair value of an investment. The District manages its exposure to declines in fair value by investment mainly in the PTIF and by adhering to the Money Management Act. The Act requires that the remaining term to maturity of investments may not exceed the period of availability of the funds to be invested.

MIDWAY SANITATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2005

NOTE 3 - RESTRICTED ASSETS

The District has monies held by Wasatch County for Debt Service. The related debt was paid off during 2005. The District is required to request the County to release the funds. As of the balance sheet date, the funds have not been released; therefore, the funds are restricted on the financial statements.

NOTE 4 - CAPITAL ASSETS

	June 30, 2004	Increase	Decrease	June 30, 2005
Capital Assets Not Being Depreciated:				
Land Easements	\$ 16,000	-	-	\$ 16,000
Total Capital Assets Not Being Depreciated:	16,000	-	-	16,000
Capital Assets Being Depreciated:				
Collection System	4,863,213	617,342	-	5,480,555
Office Equipment	10,766	2,000		12,766
Total Capital Assets Being Depreciated	4,873,979	619,342	-	5,493,321
Less Accumulated Depreciation:				
Collection System	1,107,914	97,947	-	1,205,861
Office Equipment	10,386	507		10,893
Total Accumulated Depreciation	1,118,300	98,454	-	1,216,754
Total Net Capital Assets Being Depreciated	3,755,679	520,888	-	4,276,567
Total Net Capital Assets	<u>\$ 3,771,679</u>	<u>\$ 520,888</u>	<u>\$ -</u>	<u>\$ 4,292,567</u>

MIDWAY SANITATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2005

NOTE 5 - LONG-TERM DEBT

Business Type Activities	<u>12/31/2004</u>	<u>Additions</u>	<u>Retirements</u>	<u>12/31/2005</u>	<u>Due in one Year</u>
1995 Sewer Revenue Bond	\$ 18,000	\$ -	\$ 18,000	\$ 0	\$ 0

NOTE 6 - RETIREMENT BENEFITS

Local Governmental - Cost Sharing

Plan Description. Midway Sanitation District contributes to the Local Governmental Noncontributory Retirement System, which is a cost-sharing, multiple-employer defined benefit pension plan administered by the Utah Retirement Systems. Utah Retirement Systems provide refunds, retirement benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries in accordance with retirement statutes. The Systems are established and governed by the respective sections of Chapter 49 of the Utah Code Annotated 1953 as amended.

The Utah State Retirement Office Act in Chapter 49 provides for the administration of the Utah Retirement Systems and Plans under the direction of the Utah State Retirement Board whose members are appointed by the Governor. The Systems issue a publicly available financial report that includes financial statements and required supplementary information for the Local Governmental Noncontributory Retirement System. A copy of the report may be obtained by writing to the Utah Retirement Systems, 540 East 200 South, Salt Lake City, UT 84102, or by calling 1-800-365-8772.

Funding Policy. In the Local Governmental Noncontributory Retirement System, Midway Sanitation District is required to contribute for the period of January to December 2005, 11.090% of their annual covered salary. The contribution rates are the actuarially determined rates. The contribution requirements of the Systems are authorized by statute and specified by the Board.

The Midway Sanitation District contributions to the Local Governmental Noncontributory Retirement System for 2005, 2004, and 2003 were \$1,330, \$1,175, and \$985, respectively. The contributions were equal to the required contributions for each year.

NOTE 7 - LEGAL COMPLIANCE BUDGETS

The budget for the fiscal year ending December 31, 2005, was approved and adopted by resolution or ordinance dated December 20, 2004. A public hearing, meeting the requirements specified in the Utah Code 11-35-113/114, was held on December 20, 2004. The budget was not amended during the year.

MIDWAY SANITATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2005

NOTE 8 - PROPERTY TAX CALENDAR

Lien Date.	January 1
Taxing districts notify the County of date, time, and place of public hearing.	March 1
County Auditor sends valuation certified tax rate and levy worksheets to each taxing district.	June 8
Taxing district must adopt a proposed tax rate, certify the rate and levy, and submit to the County Auditor.	Before June 22
Taxing district adopts a final tax rate if there is no increase in certified tax rate.	June 22
Taxing district adopts final budget.	December 15
Copy of the budget is submitted to State Auditor within 30 days of adoption.	

NOTE 9 - RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. It is the policy of the District to purchase commercial insurance for these risks or maintains risk at the District level. Various policies are purchased through an insurance agency to cover liability, theft, damages, and other losses. A minimal deductible applies to these policies which the District pays in the event of any loss. The District also has purchased a workers' compensation policy. Insurance settlements have not exceeded insurance coverage during the last three years.

SUPPLEMENTARY REPORTS

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**INDEPENDENT AUDITOR'S REPORT ON INTERNAL
CONTROL AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Honorable Board of Trustees
Midway Sanitation District
Midway, UT

May 26, 2006

We have audited the accompanying financial statements of the business-type activities of Midway Sanitation District for the year ended December 31, 2005, and have issued our report thereon dated May 26, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

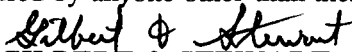
In planning and performing our audit, we considered Midway Sanitation District's, internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal controls over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in the amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Midway Sanitation District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not the objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

However, we noted certain matters that we reported to management of Midway Sanitation District, in a separate letter dated May 26, 2006.

This report is intended solely for the information and use of the management, District Board, and Utah State Auditor and is not intended to be and should not be used by anyone other than these specified parties.


GILBERT & STEWART
Certified Public Accountants

GILBERT & STEWART
CERTIFIED PUBLIC ACCOUNTANTS
A PROFESSIONAL CORPORATION

RANDEL A HEATON, C.P.A.
LYNN A. GILBERT, C.P.A.
JAMES A. GILBERT, C.P.A.
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**INDEPENDENT AUDITOR'S REPORT
ON LEGAL COMPLIANCE WITH
APPLICABLE UTAH STATE LAWS AND REGULATIONS**

Honorable Board of Trustees
Midway Sanitation District
Midway, UT

May 26, 2006

We have audited the accompanying financial statements of the business-type activities of Midway Sanitation District for the year ended December 31, 2005, and have issued our report thereon dated May 26, 2006. Our audit included test work on the District's compliance with the following general compliance requirements identified in the State of Utah Legal Compliance Audit Guide.

The District did not receive any major or nonmajor State grants during the year ended December 31, 2005.

Our audit also included testwork on the District's compliance with the following general compliance requirements identified in the State of Utah Legal Compliance Audit Guide:

Public Debt	Truth in Taxation & Property Tax Limitations
Cash Management	Special Districts
Purchasing Requirements	Impact Fees
Budgetary Compliance	Other General Issues

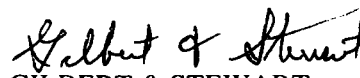
The management of the Midway Sanitation District is responsible for the District's compliance with all compliance requirements identified above. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

The results of our audit procedures disclosed no instances of noncompliance with the requirements referred to above.

In our opinion, Midway Sanitation District complied, in all material respects, with the general compliance requirements identified above for the year ended December 31, 2005.

This report is intended solely for the information of management and the Utah State Auditor, and is not intended to be and should not be used by anyone other than these specified parties.


GILBERT & STEWART
Certified Public Accountants

MIDWAY SANITATION DISTRICT

MANAGEMENT LETTER

DECEMBER 31, 2005

GILBERT & STEWART
CERTIFIED PUBLIC ACCOUNTANTS
A PROFESSIONAL CORPORATION

RANDEL A. HEATON, C.P.A.
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May 26, 2006

Administrative Control Board
Midway Sanitation District
Midway, Utah

We have audited the financial statements of Midway Sanitation District as of and for the year ended December 31, 2005 and have issued our report thereon dated May 26, 2006. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S Generally Accepted Auditing Standards and Government Auditing Standards

As stated in our engagement letter, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

As part of our audit, we considered the internal control of Midway Sanitation District such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control structure.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of Midway Sanitation District's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Midway Sanitation District are described in Note 1 to the financial statements. No new accounting policies or procedures were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by Midway Sanitation District

standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

Significant Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Midway Sanitation District financial reporting process. In our judgment, none of the adjustments we proposed whether recorded or unrecorded by the District, either individually or in the aggregate, indicate matters that could have a significant effect on the District's financial reporting process.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principal to the government unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the District's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

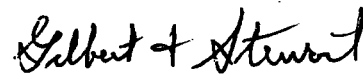
Other Matters for Consideration

1. During our audit, we found that the proper segregation of duties does not exist to provide for a proper internal control structure. Inherent staff limitations placed on small districts make it difficult to provide for these separations in a cost effective manner. We recommend that, when feasible, the District provide for proper segregation of duties. However, because in so many instances it is not feasible to provide for these separations, the board of trustees should continue to constantly be aware of the need for administrative review of transactions and activities of the District.

We wish to express our appreciation to the District's personnel for the friendly and enthusiastic help extended to us during the course of the examination. They were helpful in locating records and documentation during our audit. If you have any questions regarding this letter or the audit report please call.

This information is intended solely for the use of management of the Midway Sanitation District, the District Board, and the Utah State Auditor and is not intended and should not be used by anyone other than these specified parties.

Very truly yours,



GILBERT & STEWART

Certified Public Accountants